



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

The Indemnity for Reparations

By CHARLES GIDE

Professor of Social Economics, Collège de France, Paris

Translated by W. Rex Crawford, A. M., University of Pennsylvania

MORALITY teaches us that, when we are disputing our rights with an adversary, the surest criterion, by which we may know whether we are right or wrong, is to put ourselves in his place! I have always striven, when I speak to my fellow-countrymen, to persuade them to put themselves in the place of the Germans, but, when I write for foreigners, I should like to invite them to put themselves in the place of the French.

Now, I ask them to consider this. Let us set aside the question of political and social responsibilities for the war and consider nothing but the facts. During more than four years, France saw the richest part of her territory invaded and devastated to an extent that only those who have visited these regions after the war can realize. There are Germans who have seen these ruins and who, like our colleague, M. Adolf Müller, professor of Coöperation at the University of Berlin, have not been afraid to confess publicly the shame which they felt at the sight. It is not, as has been claimed, a question of destruction inseparable from all military operations, such as that resulting from bombardments: it is a question of systematic acts of destruction, organized in accordance with a deliberate plan, directed by technicians, in conformity with official instructions, which have been found and published: mine-shafts filled in and flooded; factories all of whose portable parts were carried away to be set up again in Germany; all the models of manufactures carefully removed; all the

cattle and agricultural machinery also; all the fruit trees, yes, the innocent apple, peach, and plum trees, cut down—together an admirable piece of work, considered as satanic work, executed with the sole end of killing French industry and agriculture for ten years, and which has attained its object perfectly.

The Germans, contrary to their expectations, lost the war. And do you know why, in November, 1918, they hastened to accept the capitulation? Because they wished at any cost to prevent the entrance of the allied armies into their territory, because they feared, and not without reason, that they would in their turn have to submit to the same sort of ravages which they had committed against us!

On the morrow of the victory, what was demanded of them? I am not speaking of the political clauses of the treaty of Versailles, which may give ground for just criticism; I have here to speak only of the reparations. Was any claim laid to a penal indemnity, such as that which the Germans inflicted on France in 1871, requiring an indemnity of 5 billion francs, whereas their war expenses had not exceeded 1,500 to 1,600 million francs, thus realizing a gain of 3,500 million, or a profit of 230 per cent? By no means. Were they even asked for the reimbursement of the expenses in the war? Not even that, because it was recognized that they were so enormous that it would be impossible for Germany to pay them. The victorious countries limited

themselves to demanding reimbursement for damage to property and persons.

Supposing then that Germany should pay the entire 132 billion gold marks, the figure at which, after successive reductions, the amount of the indemnity has been fixed (of which 52 per cent is for France). France would still remain charged with all the war expenses, a capital sum of 180 billion francs, plus say 10 billion francs annual interest, without counting the 1,500,000 lives sacrificed, which are not included in the amount of the indemnity but which, however, represent a considerable number of billions.

These are the facts. And now we read in the German papers, and even many times in the papers of our friends (as, for example, from the pen of M. Morel, the secretary of the Union Democratic Contract, or from that of M. Nitti, the Italian ex-minister) that France is acting like a Shylock who wishes to cut a pound of flesh from the body of Germany, or like a Minotaur, that she has no other aim than to enrich herself at the expense of Germany, while condemning the latter and her children and grandchildren to perpetual hard labor. Or as the *Berliner Tageblatt* says, in more facetious terms, that she demands "a fat pullet stuffed with truffles to take the place of a hen." How could even the least nationalistic Frenchman avoid a legitimate feeling of irritation?

Let us nevertheless strive to avoid this irritation and examine in a spirit of moderation and justice the arguments which are opposed to the claims of France. I say of France, for, curiously enough, she is practically the only country to be taxed with injustice, that of her Allies being scarcely discussed. Doubtless her claim is the largest, but is that her fault?

1. *Is the Indemnity Legitimate?*—

There is first an argument of equity. Germany, it is said, owes nothing, because it is not she that is responsible for the war; it is Russia, or even France. Article 221 of the Treaty of Versailles, which registers the confession of Germany's responsibility, is an abominable lie, imposed upon the vanquished by force. It must be erased, and that article, which is the keystone of the arch of the Treaty, being suppressed, the whole Treaty collapses.

But I think I should set aside that argument as not being pertinent.

Yes, the incorporation in the Treaty of Versailles of article 221 is a shameful abuse of power, more injurious to the victor than to the vanquished, for, even supposing it were demonstrated that the responsibility was entirely Germany's, justice no longer permits—since the mediaeval procedure and confession by torture have been abolished—forcing the guilty to declare himself guilty. But, supposing article 221 suppressed, as I should like to see it, the other clauses of the Treaty, good or bad, and notably that relative to the indemnity, would not be at all destroyed by the omission. For it is not as a penalty that this indemnity is claimed. It is not even by virtue of the rights of war, although that is recognized by the Germans first of all, in accordance with which, in war as in gaming, he who loses pays the stake. No, it is by virtue of that principle of civil right, proclaimed in the legislation of all countries, that whoever has inflicted a loss by his act, even though it were not by his fault, must make it good. I do not think that any honest man in Germany can contest such a principle. It is then useless to insist further upon this first point.

2. *Is the Indemnity Exaggerated?*—

Reparation is thus due. But, it is said, the figure fixed is exaggerated, for in the first place it ought not to include the amount of the pensions, and, moreover, the amount of the material damages has been given an unduly high valuation. I admit that these two objections are in part, at least, well grounded.

So far as the war pensions are concerned, it is indisputable that they were excluded from the fourteen points of President Wilson, for they had in view only the losses suffered "by the civil population." It is true that President Wilson changed this opinion, since he agreed, although not without acrimonious discussions, to sign the article of the Treaty of Versailles imposing the payment of the pensions.

Nevertheless, the Germans having laid down their arms only upon the solemn promise made by all the Allies that the points of President Wilson should serve as a basis for the Treaty of Peace, it is my opinion that they are justified in maintaining that we did not have the right to revoke that concession, and that, consequently, the amount of the capitalized pensions is to be deducted from the total of the indemnity. Now, that is not a small matter, for they represent nearly two-thirds of that total, about eighty billion gold marks!

But, of course, France can consent to that deduction only on condition that all the Allies also consent to it. Now, for the Allies, England, the Dominions, the United States, even Italy, it is just the pensions which constitute almost their whole claim upon Germany. Are they disposed to renounce it? It seems that they are not.

If, by the suppression of the pensions, the amount of the indemnity is reduced to the reparation of material

damage, then France and Belgium are left practically alone,¹ about nine-tenths for France, one-tenth for Belgium. The result would then be that France would scarcely lose by this renunciation, for it would assuredly be better for her to get 90 per cent of a realizable 50 billions, than 52 per cent of a problematical indemnity of 132 billions. That is why the solution already recommended by Keynes, and which then roused the indignation of the French, would today be willingly accepted; and, according to the latest news, M. Poincaré himself seems to favor it now.

There remains the question of material damages. Professor Keynes, in his celebrated book, declared that their valuation had been scandalously exaggerated, and, by a series of counter valuations, he reduces it to eighteen billion gold marks. We do not believe we will be suspected of partiality in this question, for we were the first, we believe, to point out the exaggeration of certain of these valuations, and Mr. Keynes even cited our evidence. But still the reduction made by our eminent colleague appears to us much exaggerated in the other direction.

Indeed, the question is not to ascertain what was the value of the houses or factories destroyed, but rather what has been or will be *the cost of reconstruction*. Now, this cost has been tremendously increased, not only by the depreciation of the franc, but by the enormous disproportion between supply and demand, for building materials as well as for labor. The *entrepreneurs* and the workmen themselves have cynically taken advantage of this situation. The result is that a house,

¹ Italy, too, and especially Serbia, have suffered enormous damages, but their claim would have to be made against Austria and Hungary. At any rate, a small part has been reserved for Italy in the claim upon Germany.

which at the time of its destruction was really worth from 15 to 20 thousand francs, has cost more than 100,000 francs to rebuild.

Nevertheless, it appears to us just to admit that the unduly large gains realized by these profiteers should not be charged to Germany, for they might have been avoided by simply accepting the proposition of Germany, namely, to leave the execution of the reparations in her hands.

There would then be a further diminution to be made of the amount of reparations, but it is very difficult to calculate it. If we estimate the cost of reconstruction at 150 billion francs (80 are already paid), including the interest on advances already made or to be made, and if we deduct 20 per cent for unduly large profits, the figure would be reduced to 120 billion paper francs, or about 40 billion gold marks.²

3. *Is it Possible for Germany to Pay?*—

But, it is said, even reduced to this figure, the indemnity still exceeds Germany's power of payment. And not only the German economists, but the most eminent economists of the other countries, like professors Keynes and Cassel, attempt to demonstrate this impossibility.

² It is to be remarked, moreover, that it is impossible to know what will be the rate of exchange between the gold mark and the paper franc six months from now, much less in 30 years! If, then, it is agreed today that Germany shall pay us 30 years from now 40 billion gold marks in payment of 150 billion francs expended, it may very well happen that in 10 or 20 years those 40 billion marks will not represent more than 100,80 or, even, if the franc rises to par, more than 50 billion francs. And the state will nevertheless remain charged with a debt of 150 billion francs in capital, or 10 billions in interest, a debt which although contracted in paper francs will be none the less payable to the bond-holders in gold francs—unless the state decrees a lowering of the value of the franc, which will be equivalent to bankruptcy.

Before discussing this point, let us first make two preliminary remarks.

The first is that such a reply in the mouth of Germans denotes in truth a certain candor. It amounts to saying: "The harm we have done is so great that it is not in our power to repair it." I set fire to your house, but I declare that my fortune is insufficient to repair the damage, and I conclude: so much the worse for you, the better for me!

A second remark is, that to affirm that it is impossible for Germany to repair the damage is to affirm *a contrario* that it is possible for France to do so. Indeed, it is not here a question of damage to come but of damage already done. How could it be said of a fact already past that it is impossible? The houses are burned, the factories destroyed, the mines flooded, the land ripped up. It might have been said, as in former wars: so much the worse for the victims, but France did not feel that she could abandon these victims to their fate. With a feeling of national solidarity, which no one, I think, will dream of criticizing, the state said: I, and all Frenchmen, assume your losses, I will reimburse you. That is what it did. It has already paid half, by borrowing, not without difficulty, and at onerous rates; it will pay the rest in five or six years. And then it turns to Germany and says to her: "Reimburse me for the advances which I have made and am going to make." And Germany replies: "It is impossible; we should be ruined." But why should France be ruined rather than Germany?

With this in mind, if we attack the question itself, it does not seem to us demonstrated that Germany is incapable of paying, especially after the double reduction which we have just admitted, which would reduce the indemnity from 132 billion gold marks

to 40 billion gold marks. Doubtless she could not do it immediately, nor even in the near future, but given thirty years, could she not pay an indemnity which would not be, as it seems according to the figures, ten times, but at the most five or six times, that which France paid cheerfully in but three years (1872-75)? For it must not be forgotten that, even counted in gold, the monetary unit has lost much of its value in fifty years, and especially in recent years.

The Germans reply that the war has impoverished them by despoiling them of the coal mines of the Sarre and of Silesia, the agricultural lands of East Prussia, their colonies, their shipping, etc. It is true, however, in spite of these losses, that Germany still has more coal than France. And as for the loss of the colonies (although I protested long ago against their confiscation) it must not be believed that their loss has resulted in greatly impoverishing Germany, any more than in greatly enriching England and France. Germany still has a population more than half again as large as that of France, and this superiority grows yearly.

Before declaring that Germany cannot pay, it would be necessary, at the very least, to prove that she has done all that is possible.

There is an article in the Treaty of Versailles, the equity of which the Germans themselves have not contested, which says that the budgetary charges of the Germans are to be at least equal to those of the country of the Entente in which they are heaviest. Now the budget of Germany for 1922 is about one hundred billion marks, while the budget of England is a billion pounds, and that of France twenty-five billion francs, or even thirty-five, counting the expenses of reparations. I am not ignorant of the fact that it is very difficult to compare the budgetary charges

of two countries, and still more difficult to measure the real value, as borne by the tax-payer, of different monetary units. I know very well it would be absurd to take as a measure the outside exchange value of the mark and to conclude from that that these one hundred billion marks represent only one billion francs or twenty-five billion pounds; nor even to take the value of the mark according to the index number, and consequently to divide the one hundred billion marks by the figure forty, which measures approximately at the present time (August, 1922) the rise of prices in Germany! Granted. But it may be affirmed that in whatever way we calculate the value of the mark and however high a valuation we set upon it, the one hundred billion marks of the German budget are very far from representing an equal value, and an equal burden upon the tax-payer, to the one billion pounds for England, and the twenty-five or thirty-five billion francs for France—especially if we divide these figures, as should be done, by that of the respective population of each of the three countries.

Without doubt, the problem of the payment of the indemnity is not merely fiscal. Should Germany bind herself to pay one thousand billion marks of taxes, it would be necessary to find the means of transforming these billions of paper marks into francs or dollars. It is precisely this difficulty, a purely economic question, which has led eminent economists, like Professor Cassel, to declare that the payment was impossible and that the only course was purely and simply to annul the debt—which means leaving the burden of the reparations on France.

It is easily understood that this is a solution not much to the taste of the French—so much the less as they well know that the German economists, at the time when they were counting on

victory and were calculating the amount of the indemnity to be inflicted upon the Entente, had expressed a very different opinion. Professor Lansburgh wrote: "With appropriate financial methods, the payment of any war indemnity whatsoever is possible."³

4. *Methods of Facilitating the Payment.*—

It remains then to find the "appropriate financial methods."

Certainly, we are not of those who expect to find them in the delivery of pledges, nor in coercive measures which could have no other effect than to aggravate the depreciation of the mark and prevent or retard the economic recovery of Germany. And, if I were the government, I should very willingly give up even the military occupation of the Rhine, since the expenses of that occupation swallow up the better part of the payment of Germany—an occupation useless from a military point of view, I say, for it is to end in 1935, I believe, and certainly it is not before that date that Germany will be able to think of a war of revenge. We are persuaded that, as our colleague, M. Jèze, notes, Germany will not pay *unless she wishes to*, but we hope that *she will wish to*.

It would be necessary, then, on the contrary, to offer her every facility for the payment.

In the first place, we should have accepted eagerly the offer which Germany made to undertake to reconstruct all that she had destroyed. That would have been not only the most economical solution, i.e., the least costly and the most expeditious (for if Germany had applied to the task of reconstruction the same scientific method as in her work of destruc-

tion, I do not doubt that the work of reconstruction would be almost finished today) but, also, I should say, the most moral, for it would have been a great example, the first in the history of wars, to see a nation repair by its own means the harm it had done.

Unfortunately, the French Government showed little inclination to accept this solution, although it was warmly advocated by the Confédération Générale du Travail (Federation of Trade Unions), but it met in other quarters the violent opposition of industrial workers and employers, anxious to reserve to themselves the monopoly of those gold mines which our devastated departments have been for them, and the government weakly yielded to these sordid interests. It must be recognized, at any rate, that there were certain practical difficulties in avoiding conflicts between the devastators of yesterday and their victims, and in making sure that the rebuilt houses were fully as good as those destroyed. Today the government recognizes its error, but rather late, since the reconstruction is already half done and the remaining half already under way. Then it gets the singular idea of employing German labor, not now in the reconstruction of the devastated regions, but in the execution of great public works—bridges, canals, the installation of hydro-electric plants! But it is not probable that the Germans would apply themselves with much enthusiasm to a task which would consist in developing the industrial strength of France!

A second way of facilitating the payments, and the most efficacious, since it is in the last analysis the only means by which one country can pay its debt to others, would be to accept German merchandise under the form of importations. But here the same opposition as before has arisen even more

³ Cited by Professor Rist in his authentic book on the finances of Germany during the war.

formidably, for you can understand that the French industrial workers have been terrified by the prospect of seeing poured into France, during thirty years, one hundred to one hundred and fifty billion francs' worth of German merchandise! Personally, from the point of view of the interests of the coöperative societies and the consumers, we should rejoice at this inundation, but neither the United States nor England has the right to reproach the French Government for its opposition, since they have both taken the same measure of protection against German importations, which they call dumping.

The payment in capital, under the form of participation in industrial enterprises, would also be an excellent mode of payment and one which would have the advantage of creating between France and Germany a forced solidarity which, although limited to economic relations, might ultimately be extended to political relations. This mode of payment, at first forgotten, then set aside, returns today to the foreground. It could be very easily realized, at least in enterprises in the form of joint-stock societies, without expropriation of the present shareholders, but simply by the creation of new shares handed over to France. Doubtless the capital and dividend of these shares would have to be in gold marks, but France would thereby become interested in the recovery of the mark.

By having recourse to these different methods of payment, the sum which would remain to be paid in gold marks would be substantially reduced and would probably not be above the capacity of Germany.

Is it necessary to add that it would be still more greatly reduced if the United States and England would consent to abandon their claims on

France? In that case, the latter could in return consent (it might even be made a condition) to an equal reduction of its claim on Germany, and that would be no small matter, about twenty-five billion gold marks! I must, however, recognize the fact that France would not accept this mode of compensation very willingly; public opinion in France would consider unjust that assimilation of claims so different in their origin; that claimed by the Allies to pay the expenses of a war waged in common, that claimed by France to replace her burned houses. France thought, perhaps naïvely, that the first of these claims could have been remitted to her without conditions and that, since all the Allies had given in common the blood of their sons, they might also have given in common their money. And that opinion is not only that of the French, but of eminent English and American economists, among whom it is enough to mention Professors Keynes and Taussig. But, since public opinion in the United States has not supported that view, it would be improper on our part to insist. Let us say merely this: since the United States thinks it is perfectly within its rights in insisting upon their claims on France, why does it say that France is abusing her rights in demanding her claim upon Germany?

In case this last reduction should be carried out, the amount of the indemnity would be reduced to about twenty-five billion gold marks, as far as France is concerned, and perhaps four to five billions for the other Allies; now, reduced to this figure, it could not be said that the indemnity exceeds the capacity of Germany to pay, for the latter had herself offered, after the armistice, a much larger sum.

If the United States and England did not feel they could agree to such a re-

nunciation, they would still have a method of procedure less onerous for them; that would be to consent to a loan which would permit the reimbursement of France for the expenses of the reparation which she has had to make, while waiting for the recovery of Germany to enable her to repay in her turn this inter-allied loan.

But, if neither of these contingencies is realized, which unfortunately seems probable, then we shall have to be satisfied with granting Germany the delay necessary to permit her to pass the present crisis. This, moreover, is what was foreseen by the Treaty of Versailles, when it gave her the right to pay off her debts by annuities for a long period of years, thirty years or even more. It is, indeed, a strange fashion of caricaturing that concession to picture it as a policy aiming at the subjection of Germany and a means of reducing to slavery a generation of Germans still to be born! Such is, however, the language of many German journalists, and even English.

And if, by reason of the fall in the value of the mark, the times set for payments, either by the Treaty or by later agreements, seem still too close, let the moratorium they ask for be granted, without pledges and without conditions, as the English Government advises, by giving credit to Germany.

However, without approving the uncompromising attitude of the French Government on this point, it is easy to understand why it hesitates to grant moratoriums and long delays, and demands pledges. It is because France fears that by the time Germany has become rich enough to pay, she will have become at the same time strong enough to refuse to pay. And we cannot say that this fear is absolutely chimerical.

The surest guarantee which France could find against that dreadful contin-

gency, would be the admission of Germany into the League of Nations. For it is the latter which henceforth should become the guardian of the engagements undertaken by its members one to another. And the Reparations Commission should be replaced by a Commission chosen from the League of Nations, in which Germany would be represented. Unfortunately, France does not appear disposed to consent to that admission, nor Germany to ask it—and it must be recognized that the refusal of the United States to participate in the League of Nations has encouraged Germany to act as she has.

ADDENDA

Professor Bonn has been kind enough to send me his article,⁴ as I also sent him mine, but I do not see much to add to my treatment, for our two treatments are in large measure parallel and even do not disagree very seriously in regard to the criticism to be made of the Treaty of Versailles.

Here, however, are some points upon which the arguments of my eminent colleague have not convinced me.

1. Professor Bonn complains that the amount of the indemnity has been left indeterminate and not immediately fixed as was the indemnity imposed on France in 1871, in order to permit Germany to be free from all control as soon as she had paid.

But if the amount of the indemnity imposed upon France in 1871 was fixed by the Treaty it is because it was a question of a penal indemnity! Now the indemnity demanded today of Germany is an indemnity for reparations, a reimbursement of the expenses of reconstruction. How could it have been fixed before knowing how much the expenses of reconstruction would be? Even to this day we are not en-

⁴ The article referred to appears in this volume on p. 149.

tirely sure of them, since we have scarcely paid the half of them. So we said to Germany: "We do not know what will be the cost of the reparation of the damage which you have caused us, but we will demand of you only the repayment of the sum expended." Is not that an act of good faith?

2. Professor Bonn attempts to demonstrate that Germany is unable to pay as a consequence of the depreciation of the mark, but that this depreciation depends on causes independent of the will of Germany and largely due to the policy of the Allies.

I do not deny that there is some truth in this argument. Nevertheless, it appears to me difficult to justify the German Government for its responsibility in the inflation which has brought in its train the fall of the mark. Indeed, at the present writing the issue reaches the figure of 376 billion marks, nearly all issued in the last two years—while France not only has not augmented her issue in the last two years, but has even slightly diminished it, reducing it from thirty-nine to thirty-seven billion francs. And, nevertheless, France has had to pay all the expenses of reconstruction, but she has paid them with internal loans and not with paper money. Why did not Germany do the same?

3. Professor Bonn ends with this conclusion: "It may be too late," which evidently means that there is no longer any hope of finding a financial solution which will permit France to be paid, and that consequently the whole of the damages which *she herself has paid* will remain a burden to her.

That is a consoling conclusion for Germany but certainly not for France! It is, besides, very humiliating to the financial capacities of the two countries, tantamount to an admission of impotence. I persist in believing that financial science has sufficient resources

to solve this problem, but I willingly grant to M. Bonn, as I had already recognized in my article, "this cannot be done without creating an atmosphere of confidence."

Without claiming myself to have arrived at that solution, it nevertheless seems to me that one might proceed as follows:

1. The Reparation Commission will be dissolved and replaced by a financial commission appointed by the League of Nations, which will have as its function to verify the account of the reparations already effected and to estimate what remains to be done.

The total, once established, will be valued in dollars.

2. Germany will have to devote one-third of her receipts to the payment of this debt and put it into the hands of the financial commission.

These deliveries will naturally be made in paper marks and converted into dollars at the rate of the day. The payments will be credited on the amount of the debt, until the debt shall be entirely wiped out.

The paying off of the debt, very slow at the beginning, will then be more and more rapid as the mark rises in value. If Germany wished to hasten it by adding to the stipulated payments others derived from loans, it goes without saying that she will have a perfect right to do so.

3. The territories subject to military occupation will be evacuated and all those clauses of the Treaty will be abolished which hinder the economic recovery of Germany (including that justly objected to by M. Bonn—the non-reciprocity of the most-favored-nation clause).

But, in return, Germany will enter the League of Nations and accept the sanctions provided for by the Treaty against nations in the League which fail to meet their engagements.